



**BRIEFING: AUGUST 12, 2014, BOARD MEETING AGENDA ITEM #3**

**TO: Chairman Richard and Board Members**

**FROM: Paula Rivera, Senior Management Auditor**

**DATE: August 12, 2014**

**RE: Consider Adopting and Audit Charter and Approving the Fiscal Year 2014-15 Audit Plan**

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**Background**

The mission of the Audit Division is to assist management in accomplishing the California High-Speed Rail Authority's (Authority) strategic objectives by bringing a value-added, risk-based approach to independently reviewing, testing, and evaluating program processes throughout the Authority.

To maintain its organizational independence, the Audit Division reports administratively to the Chief Executive Officer (CEO) and functionally to the Authority Board. The International Standards for the Professional Practice of Internal Auditing, October 2012 defines independence and objectivity as, "the freedom from conditions that threaten the ability of the internal audit activity to carry out internal audit responsibilities in an unbiased manner." Thus, in order to "achieve the degree of independence necessary to effectively carry out the responsibilities of the internal audit activity, the chief audit executive has direct and unrestricted access to senior management and the board. This can be achieved through a dual-reporting relationship."

The CEO is responsible for review and acceptance of draft audit reports, assignment of draft audit reports to staff, ensuring preparation of adequate responses to audit recommendations, and implementing audit recommendations.

The Audit Division has taken two significant steps toward ensuring the Authority's ability to meet the goals outlined above. First, staff has developed an Audit Charter to serve as a codification of existing practices in accordance with Government Code Section 13885 *et seq*, which addresses the importance of internal audit activity to public accountability and governance, and ensures the independence of internal auditors of state agencies. In addition, staff has prepared a risk-based Audit Plan for 2015 identifying the priorities for internal audit activity. Today, staff request Board approval of these documents.

## **Discussion**

### *Audit Charter*

The purpose of the Audit Charter is to provide guidance and assistance to the Authority and the Audit Division in fulfilling oversight responsibilities for the financial and operational reporting processes within the Authority. The charter documents the responsibility of the Audit Division in the areas of organization risk management, the Authority's system of internal control, and the process for monitoring compliance with laws and regulations governing the Authority's operations. The Charter codifies existing practices to ensure continuity as the program moves forward and natural staff turnover takes place.

### *Fiscal Year 2014-15 Internal Audit Plan*

In order to develop the 2014-15 Internal Audit Plan, audit topics were solicited from executive management and the Finance and Audit Committee based on the needs and priorities of each functional area. Audit Division management risk-ranked the audit topics based on the impact of the issue to the Authority's program goals and objectives, the requestor, and whether the issue identified is auditable, and then determined which audits could be performed with existing and anticipated staffing resources.

Staff brings the audit plan to the Board for approval to comply with the International Standards for the Professional Practice of Internal Auditing, Performance Standards 2020, which require the chief audit executive to communicate the internal audit activity's plans and resource requirements, including significant interim changes, to senior management and the board for review and approval.

## **Recommendations**

Staff recommends that the Board:

- Approve the Audit Charter.
- Approve the Internal Audit Plan for Fiscal Year 2014-2015.
- Delegate to the Finance and Audit Committee the responsibilities of reviewing annual audit plans, receiving reports as to whether appropriate action has been taken on audit findings, and receiving reports of material and/or egregious findings and receiving notification of uncorrected operational deficiencies reported.

## **Attachments**

- Audit Charter
- FY 2014-15 Audit Plan
- Resolution #HSRA 14-20
- Resolution #HSRA 14-21